

Message Text

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PAGE 01 BONN 00887 01 OF 02 171833Z

53

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-02 H-02

PA-02 PRS-01 USIA-15 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 IO-10 SEC-01

/122 W

----- 072737

R 171822Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7346

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 00887

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 16)

1. BUNDESBANK MAY LIMIT DM DENOMINATED FOREIGN BONDS:
ACCORDING TO PRESS REPORTS THE BUNDESBANK IS CONTEMPLAT-
ING MEASURES TO STEM THE GROWTH OF CAPITAL EXPORT
CAUSED BY THE FLOATATION OF DM DENOMINATED FOREIGN BONDS
AND HAS ALREADY INITIATED DISCUSSIONS WITH THE NATION'S
BANKING COMMUNITY. IN LATE 1969 THE FOREIGN BOND SUB-
COMMITTEE OF THE CENTRAL CAPITAL MARKET COMMITTEE RULED
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PAGE 02 BONN 00887 01 OF 02 171833Z

THAT SUCH FLOATATIONS WOULD BE LIMITED TO A DM 300

MILLION CEILING PER MONTH. UP TO NOW FLOATATIONS BY INTERNATIONAL ORGANIZATIONS SUCH AS THE WORLD BANK WERE NOT INCLUDED IN THIS LIMITATION. THIS HOWEVER IS NOW TO BE ALTERED SINCE IT HAS BEEN THE OFFERINGS OF SUCH INSTITUTIONS (MOST RECENTLY ONE BY THE EUROPEAN INVESTMENT BANK) WHICH HAVE BECOME NOTICABLY MORE ATTRACTIVE TO RESIDENTS OF GERMANY. ACCORD-
ING TO THE GERMAN FINANCIAL PRESS THE BUNDESBANK ARGUES THAT GIVEN THE HIGH PUBLIC DEFICIT WITHIN GERMANY WHICH ALSO MUST BE FINANCED BY BORROWINGS ON THE CAPITAL MARKET TAPPING OF THE MARKET BY DM DENOMINATED BONDS IS TO BE KEPT CLOSELY TO THE ABOVE ESTABLISHED CEILING. MORE-
OVER, CONSIDERABLE OUTWARD CAPITAL FLOWS WOULD.

ALSO HINDER OR AT LEAST SLOW THE DOWNWARD TREND IN DOMSTIC INTEREST RATES.

2. INDUSTRIAL PRODUCTS DEMAND CONTINUED THE WEAKENING TREND NOTED IN EMBTEL 19507. ACCORDING TO THE MOST RECENTLY AVAILABLE DATA, INDUSTRIAL ORDER INTAKE IN NOVEMBER WAS ABOUT 5 PERCENT BELOW THE SEPTEMBER-OCTOBER AVERAGE AND AT ABOUT THE SAME LEVEL AS ONE YEAR EARLIER. IN VOLUME TERMS IT WAS 12 1/2 PERCENT BELOW THE NOVEMBER 1973 LEVEL. DOMESTIC ORDERS SHOWED NEGATIVE GROWTH WHILE EXPORT ORDERS WERE STILL SLIGHTLY UP OVER LAST YEAR, ALTHOUGH THE GROWTH RATE WAS MUCH DIMINISHED FROM THAT RECORDED IN THE IMMEDIATELY PRECEDING MONTHS.

3. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS			
(DISCOUNTS IN PCT. P.A.)			
SPOT DOLLARS	ONE-MONTH	THREE-MONTH	

JAN 10	DM 2.3775	1.3	1.4
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PAGE 03 BONN 00887 01 OF 02 171833Z

13	2.3845	0.8	1.3
14	2.3965	0.5	1.3
15	2.3975	0.0	1.1
16	2.3820	0.0	1.0

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PAGE 01 BONN 00887 02 OF 02 171841Z

53

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R 171822Z JAN 75

FM AMEMBASSY BONN

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UNCLAS SECTION 02 OF 02 BONN 00887

WITHIN THE JOINT FLOAT ALL CURRENCIES, WITH THE EXCEPT-
ION OF THE DANISH AND NORWEGIAN CROWNS, WERE ABOVE THEIR
DM CENTRAL RATE. NONE REACHED THEIR UPPER DM INTER-
VENTION RATE.

4. MONEY MARKET: THE GERMAN MONEY MARKET TIGHTENED
SOMEWHAT DURING THE WEEK.

DURING THE REPORTING WEEK FRANKFURT

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PAGE 02 BONN 00887 02 OF 02 171841Z

INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

JAN 10	7.8-8.0	7.4-7.6	7.6-7.8
13	7.8-8.0	7.5-7.7	7.6-7.9
14	7.9-8.L	7.5-7.7	7.6-7.8
15	7.9-8.L	7.5-7.7	7.6-7.8
16	7.9-8.L	7.5-7.7	7.6-7.8

5. MONETARY RESERVES: IN THE LAST WEEK OF DECEMBER (DECEMBER 23-31) BUNDESBANK MONETARY RESERVES INCREASED BY DM 0.3 BILLION. HOWEVER, DUE TO THE YEAR-END BOOK-KEEPING LOSS OF DM 7.2 BILLION TO REFLECT THE NEW VALUATION OF CURRENCY RESERVES TOTAL BUNDESBANK MONETARY RESERVES AMOUNTED TO DM 81.2 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE DECREASED BY DM 5.5 BILLION, GERMANY'S IMF GOLD GRANCHE POSITION BY DM 299 MILLION, SDR HOLDINGS BY DM 388 MILLION, RESERVES OF LIMITED USABILITY BY DM 120 MILLION AND GROSS LIABILITIES BY DM 16 MILLION.

6. BANK LIQUIDITY: IN THE LAST WEEK OF DECEMBER BANK LIQUIDITY INCREASED BY DM 5.9 BILLION. LIQUIDITY WAS INCREASED BY A SUBSTANTIAL DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK (DM 8.0 BILLION) REFLECTING YEAR-END PAYMENTS OF PUBLIC AUTHORITIES, A DECLINE IN CURRENCY IN CIRCULATION (DM 1.6 BILLION) AND THE ABOVE MENTIONED INCREASE IN MONETARY RESERVES. LIQUIDITY WAS REDUCED BY AN INCREASE IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 1.1 BILLION) AND BY OTHER UNSPECIFIED FACTORS (DM 2.9 BILLION). THE BANKS REDUCED LOMBARD BORROWINGS BY DM 5.5 BILLION AND REDISCOUNT BORROWINGS BY DM 0.4 BILLION.

7. BOND MARKET: DURING THE REPORTING WEEK THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

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PAGE 03 BONN 00887 02 OF 02 171841Z

JAN 10	9.96	9.77	9.46
13	9.91	9.71	9.41
14	9.89	9.72	9.40

15	9.90	9.70	9.40
16	9.90	9.68	9.34

BETWEEN JANUARY 20-22 DM 460 MILLION OF THE DM 500
MILLION FEDERAL RAILWAYS LOAN WILL BE OFFERED FOR SALE
(CONDITIONS: ANNUAL COUPON 9.25 PERCENT; ISSUE PRICE
99.25 PERCENT; MATURITY 8 YEARS; YIELD TO MATURITY 9.39
PERCENT). THE COMMONWEALTH OF AUSTRIA IS PRESENTLY
NEGOTIATING WITH AN INTERNATIONAL BANKING CONSORTIUM
LED BY THE DEUTSCHE BANK A.G. THE ISSUE OF A DM 100
MILLION LOAN (COUPON 9.25 PERCENT; MATURITY 7 YEARS).
THE NIPPON-YUSE-KAISHA COMPANY OF JAPAN IS PLANNING A
DM 50 MILLION LOAN (CONDITIONS:COUPON 9.75 PERCENT;
MATURITY 5 YEARS).
CASH

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